

EXECUTIVE SUMMARY

PURPOSE

To determine whether persons who obtain Medicare durable medical equipment supplier numbers operate bona fide businesses.

BACKGROUND

Before businesses can bill Medicare for sale and rental of durable medical equipment, they must apply for and receive a billing number. Applicants are approved and issued such numbers by the National Supplier Clearinghouse in Columbia, South Carolina. To help assure that applicants are bona fide businesses, the Health Care Financing Administration (HCFA) requires that each supplier meet 11 standards.

Despite such safeguards, however, HCFA reported in 1996 that out of a sample of 36 new DME applicants in the Miami, Florida area, 32 were not bona fide businesses. Among other problems, some bogus applicants did not have a physical address, or an inventory of durable medical equipment. According to HCFA staff, those companies should not be issued a supplier number because they were not operational entities. Further, HCFA staff said such suppliers are typically involved in fraudulent activities.

In light of the bogus applicants discovered in Miami, HCFA asked us to ascertain whether similar problems exist elsewhere in the country. In response, we conducted unannounced on-site inspections of 420 suppliers who were issued billing numbers between January and June 1996. We also inspected 35 applicants who had not yet been approved. Our sampled suppliers were located in 12 large metropolitan areas in New York, Florida, Texas, Illinois, and California.

FINDINGS

- ▶ One of every 14 suppliers and 1 of every 9 new applicants did not have a required physical address.
- ▶ Forty-one percent of suppliers and 40 percent of new applicants failed to meet at least one supplier standard, such as those related to warranties, information for customers, and inventories.
- ▶ Oversight of home-based suppliers is particularly difficult, e.g., typically, they are not at home during normal business hours and have answering machines that do not identify the business.
- ▶ The ease and low expense of acquiring a supplier number facilitates entry of abusers into the program.

CONCLUSION

Presently, HCFA and the National Supplier Clearinghouse are approving many inexperienced, unqualified, and unethical people for supplier numbers. The desk verification process for approving suppliers is unreliable for detecting unethical and improper practices of bogus suppliers. On-site verification is needed, but not for all suppliers. HCFA and the National Supplier Clearinghouse may determine that some suppliers such as large corporations need no or only occasional site verification. Further, the supplier number application form needs to be revised. Presently, it is inadequate for judging the suitability of supplier applicants.

RECOMMENDATION

HCFA should take quick action to ensure the integrity of Medicare suppliers of durable medical equipment. The following options would help accomplish that goal.

- ▶ Charge all applicants an application fee.
- ▶ Require all suppliers to have a surety bond.
- ▶ Conduct on-site visits at applicants' physical locations.
- ▶ Require program training for new suppliers by the Medicare regional carriers.
- ▶ Increase the review of inactive numbers.
- ▶ Further revise the application form.
- ▶ Seek authority to require Social Security and tax identification numbers from applicants.
- ▶ Impose on denied applicants a 6-month waiting period before reapplication.

Implementation of the first option will provide financial resources to implement the others.

AGENCY COMMENTS

HCFA concurred with our recommendation. Their comments are in Appendix A. The Balanced Budget Act of 1997 authorized Medicare to collect Social Security and tax identification numbers and required suppliers to have a surety bond.